

Testimony in Support of LD 1807, An Act to Expand the Sales Tax to Luxury Services and Adjust the Sales Tax on Rental Cars*May 8, 2025*

Sen. Grohoski, Rep. Cloutier, and members of the Taxation Committee, my name is Maura Pillsbury and I am a tax policy analyst at Maine Center for Economic Policy. We are testifying in support of LD 1807.

LD 1807 proposes to expand the definition of taxable services to include:

- charter of a private helicopter
- rental of a limousine or luxury car
- charter of watercraft in excess of 25 feet

These services would be subject to the current state sales tax of 5.5%.

The bill also increases the tax on short-term rental cars used for periods of less than one year from 10% to 15% and repeals the existing exemption from this tax for loaner vehicles used by customers of car dealerships.

We support expanding the taxation of luxury services and rental cars. The tax increase on rental cars would fall mainly on visitors to Maine, rather than Maine residents themselves. Increasing taxes on certain luxury services would also primarily fall on consumers who can afford to pay them. Maine's sales tax disproportionately impacts those with lower incomes who spend 6x as much of their income on sales tax than those in the top 1%.ⁱ It also disproportionately affects those who consume more goods than services because many services are not taxed. Increasing taxes on luxury services is one way to address these inequities.

We would also encourage the Committee to consider taxation of additional types of services. Maine taxes fewer services than many other states. According to the Institute on Taxation and Economic Policy, this isn't necessarily due to a conscious policy choice. Rather, when most sales taxes were enacted, services constituted a much smaller part of consumer spending, while they now comprise a significant portion of consumer spending.ⁱⁱ Yet the list of taxable services in Maine remains relatively short. Pages 209-219 of the 2026-2027 Maine State Tax Expenditure Report show tax exempt services.ⁱⁱⁱ To be clear, we would not advocate for taxing all of these services, and any increase in sales tax on services that could impact Mainers with low to middle income should be offset by further increasing the Sales Tax Fairness Credit.

At a time when Maine needs to find new sources of revenue to fill budget gaps or make cuts to crucial supports for Mainers, we urge the Committee to expand taxes on certain services.

Thank you for your time. I would be happy to answer any questions. maura@mecep.org

ⁱ Institute on Taxation and Economic Policy. “Maine: Who Pays? 7th edition.” 9 Jan 2024.

<https://itep.org/whopays/maine-who-pays-7th-edition/>

ⁱⁱ Institute on Taxation and Economic Policy. “Should Sales Taxes Apply to Services?” 1 July 2011.

<https://itep.org/should-sales-taxes-apply-to-services/>

ⁱⁱⁱ Maine Revenue Services, 15 Feb 2025. <https://www.maine.gov/revenue/sites/maine.gov.revenue/files/inline-files/Tax%20Expenditure%20Report%2026-27%20.pdf>